



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

BALANCED FUND

A pooled management service for private clients

ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 28TH FEBRUARY 2023

SUMMARY

At 28th February 2023, total net assets of the fund amounted to £1,073,955,884 compared with £1,007,886,544 twelve months before. There were 1,438 unitholders, excluding ISAs, with an average holding worth £632,781.

The objective of the fund is to preserve and grow the real value of investors' capital and income, placing an equal emphasis on the generation of income and capital growth. Investors are encouraged to hold units for a minimum of three years to provide the best chance of achieving that objective. Real value is defined as the value of capital and income after adjusting for the impact of inflation, as measured by the UK Retail Prices Index (RPI), over the same period. Total return is the aggregate of capital appreciation, if any, which would be indicated by a rise in the unit price, plus income received from the fund's half yearly dividends.

The price of units in the fund at 28th February 2023 stood at £60.207 (£59.004 at 28th February 2022), up 2% compared with the figure twelve months before. A final dividend distribution of 60.658 pence per unit is now being paid. This brings the total distribution over the year to 89.658 per unit, 10% higher than paid in the previous year.

The total return of the fund over the period was 4%. This was lower than the rate of inflation, which remained at an elevated level of 10% over the 12 months to 28th February 2023. However, over the three years to 28th February 2023 (the minimum recommended holding period), the total return to unit holders in the fund was 26%, compared to retail price inflation of 25%, and over five years the respective figures were 37% and 31%. The fund has provided a total return to unitholders of 933% above inflation since its inception in February 1990.

The immediate outlook for equities still seems difficult. Profit margins and disposable incomes are both vulnerable at a time of pronounced macroeconomic and geopolitical uncertainty. Moreover, the need for significant intervention to salvage distressed banks and prevent contagion is a salutary reminder of the remaining systemic risk in the financial sector. If confidence improves, the fund's holdings in short-dated government bonds can be sold quickly, allowing a rapid increase in the portfolio's equity weighting. For now, however, the portfolio strategy reflects a degree of caution and is positioned to preserve capital.

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**The information provided on the back of this booklet also forms part of the Authorised Fund Manager's Report.*

INTRODUCTION

The McInroy & Wood Balanced Fund (the fund) is an authorised unit trust for those who wish to have their assets personally managed by McInroy & Wood Limited (MW). The fund is designed for use by both discretionary clients of MW, and by those who are comfortable deciding whether the fund is suitable for them.

The fund has been established with the aim of providing investors with professional investment management at an economic cost.

Through the fund, investors who have similar objectives are able to pool their resources in order to secure the benefits of scale.

The investment objective of the fund is to maximise the total return to unitholders, by preserving and growing the real value of investors' capital and income, placing an equal emphasis on the generation of income and on capital growth. Real value is defined as the value of capital and income after adjusting for the impact of inflation. The RPI is the measure of inflation used by the Manager. The investment should be held for a minimum period of 3 years. Total return is defined as capital appreciation, if any, plus income received, and does not imply that a positive return will be consistently achieved over this or any other time period. Investors should be aware that their capital is at risk.

The fund may invest in any geographical areas and any economic sectors. The fund invests at least 50 percent in a combination of shares of companies quoted on the world's stockmarkets, fixed income and debt securities (investment and sub-investment grade). Other appropriate investments, such as cash or cash equivalents may also be held, particularly to preserve capital in the event of volatile market conditions. In addition, not more than 10 percent of the property of the fund may be invested in securities dealt on the Alternative Investment Market of the London Stock Exchange, and/or equivalent overseas market. It is not intended that the fund will have an interest in any immovable property or tangible movable property.

The fund has always avoided investment in tobacco and arms companies, as well as companies involved in usurious lending and gambling.

The Manager has power to invest more than 35 percent in value of the scheme property of the fund in government and other public securities. This power is restricted to bonds or other securities issued by the governments of the United Kingdom or the United States of America.

Further information and application forms may be obtained from McInroy & Wood Portfolios Limited (MWP), Easter Alderston, Haddington, EH41 3SF (Tel. +44(0)1620 825867) or through the website: www.mcinroy-wood.co.uk.

MANAGER'S INVESTMENT REPORT

At 28th February 2023, total net assets of the fund amounted to £1,073,955,884 compared with £1,007,886,544 twelve months before. There were 1,438 unitholders, excluding ISAs, with an average holding worth £632,781.

The fund produced a total return, net of fees, of 4% over the year. The portfolio benefited from favourable foreign currency movements that boosted the values of overseas assets and the holdings in gold.

Markets

Although central banks across the developed world increased interest rates to tackle persistently high inflation, it was the tightening of US monetary policy in particular that had the most significant effect on financial markets during the year. The US dollar strengthened and there were sharp falls in the share prices of consumer technology stocks, including those of many of the largest companies in the world.

It proved a mixed period for equity markets. The US market fell by 10% and Emerging Markets lost 18%, as measured by MSCI indices in local currencies. By contrast, Europe rose by 2% after recovering from a weak phase at the beginning of 2022, while Japan benefited from subdued inflation to record a 5% gain. The UK was even stronger, advancing 6% as its leading sectors outperformed. Energy and mining stocks were lifted by rising commodity prices, while higher interest rates improved the profitability of the banking sector. In sterling terms, the positive return from the MSCI All Country World Index (+1%) was largely a reflection of currency movements.

Meanwhile, government bond prices weakened as interest rates rose. Short-dated conventional stocks issued by western governments generally fell by around 5%. UK index-linked gilts of comparable maturities were up 1%, an indication of continued misgivings over the trajectory of domestic inflation. However, a more stable picture in the US resulted in a 4% fall in their US counterparts.

In foreign exchange markets, most major currencies strengthened against sterling. The euro appreciated by 5%, the Swiss franc by 8%, and the US dollar by 10%. The exception was the Japanese yen, which fell by 6%.

The price of gold fell by 4% in US dollar terms.

MANAGER'S INVESTMENT REPORT

Results and dividend distribution

The objective of the fund is to preserve and grow the real value of investors' capital and income, placing an equal emphasis on the generation of income and capital growth. Investors are encouraged to hold units for a minimum of three years to provide the best chance of achieving that objective. Real value is defined as the value of capital and income after adjusting for the impact of inflation, as measured by the UK Retail Prices Index (RPI), over the same period. Total return is the aggregate of capital appreciation, if any, which would be indicated by a rise in the unit price, plus income received from the fund's half yearly dividends.

The price of units in the fund at 28th February 2023 stood at £60.207 (£59.004 at 28th February 2022), up 2% compared with the figure twelve months before. A final dividend distribution of 60.658 pence per unit is now being paid. This brings the total distribution over the year to 89.658 per unit, 10% higher than that paid in the previous year. The fund's income was boosted by especially large payments from energy companies which had benefited from rising commodity prices, while favourable foreign exchange movements lifted the sterling value of dividends paid by international companies.

The total return of the fund over the period was 3%. This was lower than the rate of inflation, which remained at an elevated level of 14% over the 12 months to 28th February 2023. However, over the three years to 28th February 2023 (the minimum recommended holding period), the total return to unit holders in the fund was 26%, compared to retail price inflation of 25%, and over five years the respective figures were 37% and 31%. The fund has provided a total return to unitholders of 932% above inflation since its inception in February 1990.

Portfolio strategy

The portfolio holds a diversified selection of global equities, government bonds, both conventional and inflation-protected, gold and cash. Significant changes to the bond allocation were undertaken during the period, reflecting nervousness that equity markets might be impacted by an economic slowdown triggered by sustained inflation. The weighting in conventional government bonds was increased by 10% in June with a corresponding reduction in equities. Purchases included an investment in Swiss government bonds to add further diversification within the bond allocation. In December it became apparent that western economies were beginning to slow down as a result of higher interest rates, and fears of recession increased. The fund's inflation-linked exposure in the US was reduced, and reinvested in euro-denominated government bonds.

At 28th February 2023, 56% of the portfolio was allocated to equities (63% at 28th February 2022), 33% to bonds (25%), 10% to gold (11%), and 1% to cash deposits (1%).

MANAGER'S INVESTMENT REPORT

Investments

The investments in Ansys (US), Britannia Industries (India), Essilor Luxottica (France), Fuchs Petrolub (Germany), Rotork (UK), Shimano (Japan), Thai Beverage (Thailand) and Victrex (UK) were sold in full during the period. New holdings were established in Weir Group (UK), a mining equipment manufacturer, and Hermes International (France) a luxury design house specialising in leather goods.

There were notable gains in Novo Nordisk (+46%), Shell (+28%) and Shandong Weigao (+18%), XP Power (-46%), Sonova (-35%) and Crompton Greaves Consumer Electrical (-29%) lost ground.

In the bond allocation, several transactions were undertaken over the period connected to the strategic changes highlighted above. Otherwise, five UK and US bonds matured during the period and the proceeds were reinvested into similar issues. The average duration of the bond portfolio at the end of the period was 2.1 years, compared to 2.5 years twelve months before.

A summary of all portfolio changes is shown on pages 13 to 15 of this report.

Outlook

Global growth prospects have improved since the start of the period, but the investment outlook remains highly uncertain. Financial markets are being buffeted by tighter monetary policy, volatile inflation, and pressure on disposable incomes. It is difficult to predict the full ramifications. Higher interest rates have already induced stress in unexpected ways. Recent crises in the US and Swiss banking sectors are a cause for concern, and a careful watch will need to be kept on the financial sector. In these circumstances, portfolio strategy continues to be based on maintaining a broad diversification of investments, including allocations to a range of short-dated government bonds and gold.

Central banks have ended fifteen years of economic stimulus by increasing interest rates and reversing quantitative easing. Higher borrowing costs for businesses and consumers are designed to reduce demand and lower inflation. Encouragingly, there are signs that this approach is beginning to work. The rate of price increases has fallen from its recent peaks, but policymakers must tread a delicate path between tipping economies back into recession and allowing inflation to surge higher.

MANAGER'S INVESTMENT REPORT

Outlook continued

China's abrupt decision to reopen its economy after imposing highly restrictive lockdowns should be positive for financial markets. The country remains a crucial link in worldwide supply chains. Its vast population also makes a material contribution to global demand and neighbouring countries in the Asia Pacific region will be direct beneficiaries of increasing Chinese consumption. There is, however, a risk that inflation might pick up sharply in China if pent-up demand results in a surge in consumption, while there is also some apprehension that medical provision in the country could prove inadequate if the pandemic were to spread rapidly again. Further worries include a deepening crisis in the property sector and rising tensions with the US. Nevertheless, the International Monetary Fund has upgraded forecasts for China, which is still among the fastest growing of the world's major economies.

Despite recent falls, oil and gas prices are well above pre-pandemic levels, and a strong Chinese recovery is likely to push them even higher. The eurozone remains notably exposed after narrowly avoiding a severe energy crisis thanks to a relatively mild winter. Considerable investment in new infrastructure will be needed both to improve the region's access to global liquid natural gas supplies and to accelerate its transition to renewable sources of energy. A major increase in new gas projects will also require significant funding from the oil and gas industry. Of course, any escalation in the war in Ukraine would bring a whole range of other concerns for neighbouring countries.

Meanwhile, labour markets remain robust in developed economies. In the UK, unemployment is at its lowest rate in almost fifty years, and the US has to go back even further to 1969 to match its current level. While this indicates that business is coping with higher interest rates, it also adds to fears that inflation is becoming more firmly entrenched. Staff shortages and industrial action are becoming more widespread, creating upward pressure on wages. This, in turn, is squeezing profit margins at a time when companies are already struggling to adapt to the higher costs of raw materials and energy.

The immediate outlook for equities still seems difficult. Profit margins and disposable incomes are both vulnerable at a time of pronounced macroeconomic and geopolitical uncertainty. Moreover, the need for significant intervention to salvage distressed banks and prevent contagion is a salutary reminder of the remaining systemic risk in the financial sector. If confidence improves, the fund's holdings in short-dated government bonds can be sold quickly, allowing a rapid increase in the portfolio's equity weighting. For now, however, the portfolio strategy reflects a degree of caution and is positioned to preserve capital.

21st April 2023

COMPARATIVE TABLE - PERSONAL CLASS

	28 th February 2023 (pence per unit)	28 th February 2022 (pence per unit)	28 th February 2021 (pence per unit)
Change in net assets per unit			
Opening net asset value per unit	5,865.38	5,427.39	4,932.89
Return before operating charges*	254.85	585.09	621.05
Operating charges	(65.94)	(65.92)	(59.92)
Return after operating charges	188.91	519.17	561.13
Distributions	(89.66)	(81.18)	(66.63)
Closing net asset value per unit			
	5,964.63	5,865.38	5,427.39
*After direct transaction costs of	(2.81)	(1.34)	(2.79)
Performance**			
Return after charges	3.22%	9.56%	11.38%
Other information			
Closing net asset value (£'000)	1,073,956	1,007,887	872,318
Closing number of units	18,005,407	17,183,654	16,072,493
Operating charges	1.11%	1.11%	1.12%
Direct transaction costs	0.05%	0.02%	0.05%
Prices			
Highest unit price	£61.940	£63.303	£58.390
Lowest unit price	£56.240	£54.286	£45.020
Portfolio turnover			
Annualised	61%	21%	60%

** Performance is capital gains (or losses) plus income earned.

Turnover has been higher in recent periods due to changes in the fund's asset allocation and the reinvestment of maturing bond proceeds.

COMPARATIVE TABLE - PERSONAL CLASS

Please note that the capital return element, reflected in the performance figure noted above is based on the movement in the net asset value per the published financial statements and includes the impact of post year end accounting adjustments. It may therefore vary from the unit price movement noted in the Manager's Report. The unit price is struck at the daily valuation point at 12 noon, whereas the valuation of investments reported in the financial statements is struck at the close of business on the last business day of the period (See note 1(g)), creating a timing difference.

PORTFOLIO STATEMENT

as at 28th February 2023

INVESTMENTS	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
			28 th Feb. 2023	28 th Feb. 2022
<i>Bonds</i>				
UK				
UK Treasury 0.125% I-L 2026	£18,717,000	26,008	2.4	
UK Treasury 0.25% 2025	£32,800,000	30,473	2.8	
		<u>56,481</u>	<u>5.2</u>	<u>5.4</u>
USA				
US Treasury 0.125% 2023	\$39,267,000	31,782	2.9	
US Treasury 0.125% 2024	\$39,000,000	30,847	2.9	
US Treasury 0.125% I-L 2024	\$44,691,000	45,126	4.2	
US Treasury 0.125% I-L 2027	\$39,230,000	31,853	3.0	
US Treasury 0.25% I-L 2025	\$26,899,000	26,924	2.5	
US Treasury 0.375% 2024	\$42,748,000	33,115	3.1	
		<u>199,647</u>	<u>18.6</u>	<u>19.9</u>
GERMANY				
Germany (Federal Republic) 0.5 % 2025	€ 30,865,000	25,731	2.4	
Germany (Federal Republic) 0.5 % 2026	€ 31,310,000	25,567	2.4	
		<u>51,298</u>	<u>4.8</u>	<u>0.0</u>
SWITZERLAND				
Swiss Confederation Government Bond 1.25% 2026	CHF 29,232,000	25,693	2.4	
Swiss Confederation Government Bond 1.5% 2025	CHF 28,330,000	25,074	2.3	
		<u>50,767</u>	<u>4.7</u>	<u>0.0</u>
TOTAL BONDS		<u><u>358,193</u></u>	<u><u>33.3</u></u>	<u><u>25.3</u></u>
<i>Equities</i>				
UK				
Croda International	223,313	14,645	1.4	
Rio Tinto	461,951	26,382	2.5	
Shell	1,132,138	28,603	2.7	
Spirax-Sarco Engineering	238,574	27,830	2.6	

PORTFOLIO STATEMENT

continued

	Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
			28 th Feb. 2023	28 th Feb. 2022
<i>Equities continued</i>				
UK continued				
Weir	1,044,610	19,837	1.8	
XP Power	435,912	10,200	0.9	
		<u>127,497</u>	<u>11.9</u>	<u>14.3</u>
USA				
Abbott Laboratories	168,202	14,124	1.3	
Becton Dickinson	79,955	15,486	1.5	
Ecolab	124,634	16,389	1.5	
Edwards Lifesciences	265,383	17,629	1.7	
Mettler-Toledo	19,955	23,581	2.2	
Microsoft	109,556	22,568	2.1	
Paychex	155,612	14,185	1.3	
Watsco	95,092	23,933	2.2	
		<u>147,895</u>	<u>13.8</u>	<u>15.9</u>
DENMARK				
Novo Nordisk	256,225	30,127	2.8	2.3
FRANCE				
Air Liquide	220,932	29,135	2.7	
Hermes International	7,328	11,009	1.0	
Schneider Electric	169,310	22,559	2.1	
		<u>62,703</u>	<u>5.8</u>	<u>4.7</u>
GERMANY				
SAP	188,870	17,779	1.7	2.4
IRELAND				
Kerry 'A'	198,733	15,773	1.5	1.8
NETHERLANDS				
ASML	50,530	25,851	2.4	2.0
SWITZERLAND				
Sonova	71,019	14,464	1.3	2.1
JAPAN				
Asahi Intecc	1,320,200	18,541	1.7	
Misumi	840,300	16,484	1.5	
Nabtesco	698,200	14,882	1.4	
Nissan Chemical Industries	445,800	16,085	1.5	
Shimadzu	664,300	15,831	1.5	
		<u>81,823</u>	<u>7.6</u>	<u>7.5</u>

PORTFOLIO STATEMENT

continued

		Holding or Nominal Value	Bid Market Value £'000	Percentage of Value of total net assets	
				28 th Feb. 2023	28 th Feb. 2022
<i>Equities continued</i>					
DEVELOPING MARKETS					
Brazil	Localiza Rent a Car	820,555	7,200	0.6	
China	Anta Sports Products	910,800	9,910	0.9	
Hong Kong	Shandong Weigao Medical Polymer	9,492,000	12,645	1.2	
	Vitasoy International	7,056,000	11,850	1.1	
India	Crompton Greaves	2,756,168	8,345	0.8	
	Marico	1,483,904	7,288	0.7	
Mexico	Wal-Mart de Mexico	2,898,480	9,385	0.9	
Portugal	Jeronimo Martins	494,551	8,413	0.8	
			<u>75,036</u>	<u>7.0</u>	<u>10.1</u>
TOTAL EQUITIES			<u><u>598,948</u></u>	<u><u>55.8</u></u>	<u><u>63.1</u></u>
<i>Exchange Traded Commodities (ETC) - Physically Backed</i>					
IRELAND					
	Invesco Physical Gold ETC	239,192	34,869	3.3	
	iShares Physical Gold ETC	2,450,583	72,031	6.7	
			<u>106,900</u>	<u>10.0</u>	<u>11.1</u>
TOTAL INVESTMENTS			1,064,041	99.1	99.5
Net other assets			<u>9,915</u>	<u>0.9</u>	<u>0.5</u>
TOTAL NET ASSETS			<u><u>1,073,956</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>

Note: Unless otherwise stated, the above securities are admitted to official stock exchange listings or traded on a regulated market.

All debt securities in the portfolio at 28th February 2023 are investment grade.

SUMMARY OF ALL PORTFOLIO CHANGES

for the year to 28th February 2023

Purchases		Cost £'000
17,911	Air Liquide	2,008
6,240	ANSYS	1,490
451,800	ANTA Sports Products	3,997
842,500	Asahi Intecc	12,560
10,205	ASML	4,137
36,595	Croda International	2,500
30,762	Ecolab	4,052
30,865,000	Germany (Federal Republic) 0.5% 2025	25,610
31,310,000	Germany (Federal Republic) 0.5% 2026	25,655
7,328	Hermes International	9,510
25,650	Invesco Physical Gold ETC	3,579
234,700	Localiza Rent a Car	1,969
48,518	Microsoft	11,311
239,400	MISUMI	4,518
207,300	Nabtesco	3,966
23,520	SAP	1,983
89,410	Schneider Electric	9,974
2,008,000	Shandong Weigao Medical Polymer	1,994
84,000	Shimadzu	2,090
22,360	Spirax-Sarco Engineering	2,464
29,232,000	Swiss Confederation Government Bond 1.25% 2026	24,992
28,330,000	Swiss Confederation Government Bond 1.5% 2025	24,544
4,944,000	Thai Beverage	2,015
13,764,000	UK Treasury 0.125% I-L 2026	19,215
32,800,000	UK Treasury 0.25% 2025	30,933
39,267,000	US Treasury 0.125% 2023	31,019
5,492,000	US Treasury 0.125% 2024	5,516
39,000,000	US Treasury 0.125% 2024	29,911
39,230,000	US Treasury 0.125% I-L 2027	32,277
42,748,000	US Treasury 0.375% 2024	33,413
2,295,000	Vitasoy International	3,131
1,044,610	Weir	14,715
156,350	XP Power	4,858

**SUMMARY OF ALL
PORTFOLIO CHANGES**

continued

Purchases		Cost £'000
	TOTAL	<u>391,906</u>

SUMMARY OF ALL PORTFOLIO CHANGES

continued

Disposals	Proceeds £'000
56,983 ANSYS	11,828
415,000 Anta Sports Products	5,107
331,510 Britannia Industries	11,414
108,844 Croda International	7,311
15,991 Embecta	376
117,882 EssilorLuxottica	15,314
438,747 Fuchs Petrolub	9,524
540,200 iShares Physical Gold ETC	15,226
277,585 Jeronimo Martins SGPS	4,463
439,265 Localiza Rent a Car	3,895
2,517 Localiza Rent a Car Rights 2022	7
3,586 Localiza Rent a Car Rights 2023	8
664,096 Marico	3,357
1,890 Mettler-Toledo	1,955
51,400 Novo Nordisk	5,317
128,614 Paychex	14,060
5,153,521 Rotork	12,603
509,015 Shell	12,179
57,600 Shimano	7,752
32,387,800 Thai Beverage	12,563
29,300,000 UK Treasury 0.125% 2023	29,300
11,201,000 UK Treasury 1.875% I-L 2022	18,893
40,618,200 US Treasury 0.125% 2022	35,913
29,718,000 US Treasury 0.125% 2022	23,606
17,658,000 US Treasury 0.125% 2022	14,495
10,770,000 US Treasury 0.125% I-L 2024	10,573
4,238,000 US Treasury 0.25% I-L 2025	3,987
29,315,000 US Treasury 0.5% 2028	27,360
28,785,000 US Treasury 0.875% 2029	26,622
449,896 Victrex	8,000
1,734,130 Wal-Mart de Mexico	4,828
4,520 Watsco	1,059
TOTAL	<u>358,895</u>

GENERAL INFORMATION

Authorisation

The Balanced Fund is an authorised unit trust scheme within the meaning of the Financial Services and Markets Act 2000 and is categorised as a UK UCITS scheme under the rules contained in the Collective Investment Schemes Sourcebook made by the Financial Conduct Authority.

McInroy & Wood Limited and its subsidiary, McInroy & Wood Portfolios Limited, are authorised and regulated by the Financial Conduct Authority.

Capital Gains Tax

Authorised unit trusts are exempt from UK capital gains tax on realised capital gains. Overseas capital gains tax is accounted for on an accruals basis.

Applications

The minimum initial and subsequent investment in the fund is £1,000. Regular monthly contributions may be made for a minimum of £100. Online dealing is available.

Costs of Investment Research

MW, the Investment Adviser to the Manager of the Balanced Fund, pays for all research costs relating to the management of the investments within the fund from its own resources. No additional charges are placed upon the fund relating to the provision of investment research.

Using your Personal Information

The personal information which we obtain from you when you invest in the fund is used to help administer your investment. All processing of your personal information will be carried out in accordance with our Privacy Policy, which you can access at the foot of the homepage on our website (www.mcinroy-wood.co.uk). Please read our Privacy Policy, as it sets out your rights with respect to any personal information we collect from or about you, and explains in more detail how we use that information to administer your investment.

Remuneration Policy

MWP delegates investment management of the fund, and other in-house funds (together "funds") to MW, the Investment Adviser. Directors and staff involved in the management of the fund are not remunerated by MWP, but they are subject to the remuneration requirements of the UCITS Remuneration Code. The group remuneration policy is approved annually by the MW Board and is designed to ensure that the remuneration of directors and staff is consistent with and promotes sound and effective risk management. MW pays no variable remuneration to its directors. No other employees have authority to influence the risk profile of the funds. It is, therefore, not possible for variable remuneration incentives to encourage risk taking which is inconsistent with the risk profile of the funds managed. MWP's compliance with its duty to act in the best interests of the funds it manages is therefore not subject to any conflict of interest.

GENERAL INFORMATION

continued

A Word of Caution

You should remember that the price of units and the income from them may go down as well as up. Gains are not necessarily achieved in the short term. Exchange rate fluctuations may also cause the value of an investment to rise and fall. Investment in emerging markets can be subject to risks not normally associated with developed markets.

Synthetic Risk and Reward Indicator (Volatility measure)

1	2	3	4	5	6	7
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Lower risk

Typically lower rewards

Higher risk

Typically higher rewards

This indicator shows how much a fund's price has risen and fallen in the past and therefore how much its returns have varied: it is a measure of the fund's volatility. The higher the past volatility, the higher the number on the scale. The lowest number on the scale does not mean that a fund is risk free.

This indicator is prescribed by EU reporting guidelines as adopted by the Financial Conduct Authority and is based on historical data. It should not be used as an indicator of the fund's future risk profile. The risk and reward profile shown is not guaranteed to remain the same and may change over time.

Value Assessment

The Manager produces a composite annual Assessment of Value for the funds managed by it. The document is published on McInroy & Wood's website by 30th June each year.

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority (the Rules) requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice (including FRS 102), of the financial position of the fund and of its net revenue and the net capital gains on the property of the fund for the year. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association in May 2014, updated in June 2017;
- follow generally accepted accounting principles and applicable accounting standards;
- prepare the accounts on the basis that the fund will continue as a going concern unless it is inappropriate to do so; and
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

The Manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and the Rules, and for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law or regulations.

The maintenance and integrity of the Our Fund pages of the McInroy & Wood website is the responsibility of the Authorised Fund Manager.

DIRECTORS' STATEMENT

In accordance with the requirements of the rules in the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority, we hereby certify the Report and Financial Statements of the fund on behalf of the Directors of McInroy & Wood Portfolios Limited.

T A U Wood
Director

J C McAulay
Director

Haddington, 21st April 2023

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME AND REPORT OF THE TRUSTEE

to the Unitholders of the McInroy & Wood Balanced Fund (the Trust) for the year ended 28th February 2023

The Trustee in its capacity as Trustee of the McInroy & Wood Balanced Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together "the Regulations"), the Trust Deed and Prospectus (together "the Scheme documents") as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors.

The Trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The Trustee must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked in cash accounts in accordance with the Regulations;
- the sale, issue, repurchase and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager (the AFM), which is the UK UCITS Management Company, are carried out (unless they conflict with the Regulations).

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE SCHEME AND REPORT OF THE TRUSTEE

continued

The Trustee also has a duty to take reasonable care to ensure that the Trust is managed in accordance with the Regulations and the Scheme documents of the Trust in relation to the investment and borrowing powers applicable to the Trust.

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Trust, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects the Trust, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the Scheme documents of the Trust; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and the Scheme documents of the Trust.

For and on behalf of
The Bank of New York Mellon
(International) Limited

21st April 2023

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of McInroy & Wood Balanced Fund (the "Fund"):

- give a true and fair view of the financial position of the Fund as at 28th February 2023 and of the net revenue and the net capital gains on its scheme property for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 28th February 2023; the Statement of Total Return and the Statement of Change in Net Assets Attributable to Unitholders for the year then ended; the Distribution Tables; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

continued

Conclusions relating to going concern continued

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Fund's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Manager with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on our work undertaken in the course of the audit, the Collective Investment Schemes sourcebook requires us also to report certain opinions as described below.

Manager's Report

In our opinion, the information given in the Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Manager for the financial statements

As explained more fully in the Statement of the Manager's Responsibilities, the Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Manager is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

continued

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to wind up or terminate the Fund, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Fund/Industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Collective Investment Schemes sourcebook, and we considered the extent to which non-compliance might have a material effect on the financial statements, in particular those parts of the sourcebook which may directly impact on the determination of amounts and disclosures in the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to increase the net asset value of the Fund. Audit procedures performed included:

- Discussions with the Manager, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes, including those of the Manager's board of directors;
- Identifying and testing journal entries, specifically any journals posted as part of the financial year end close process; and

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF MCINROY & WOOD BALANCED FUND

continued

- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Fund's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Opinion on matter required by the Collective Investment Schemes sourcebook

In our opinion, we have obtained all the information and explanations we consider necessary for the purposes of the audit.

Collective Investment Schemes sourcebook exception reporting

Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
Edinburgh

21st April 2023

STATEMENT OF TOTAL RETURN

for the year ended 28th February 2023

	Notes	Year ended 28 th Feb. 2023		Year ended 28 th Feb. 2022	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	2		26,446		83,498
Revenue	3	18,676		16,120	
Expenses	4	<u>(11,410)</u>		<u>(11,081)</u>	
Net revenue before taxation		7,266		5,039	
Taxation	5	<u>(491)</u>		<u>(1,460)</u>	
Net revenue after taxation			<u>6,775</u>		<u>3,579</u>
Total return before distributions			33,221		87,077
Distributions	6		<u>(15,648)</u>		<u>(13,721)</u>
Change in net assets attributable to unitholders from investment activities			<u>17,573</u>		<u>73,356</u>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 28th February 2023

	Year ended 28 th Feb. 2023		Year ended 28 th Feb. 2022	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		1,007,887		872,318
Amounts receivable on creation of units	81,107		95,948	
Amounts payable on cancellation of units	<u>(32,611)</u>		<u>(33,709)</u>	
		48,496		62,239
Stamp duty reserve tax		–		(26)
Change in net assets attributable to unitholders from investment activities		<u>17,573</u>		<u>73,356</u>
Closing net assets attributable to unitholders		<u>1,073,956</u>		<u>1,007,887</u>

BALANCE SHEET

as at 28th February 2023

		28 th Feb. 2023		28 th Feb. 2022	
	Notes	£'000	£'000	£'000	£'000
ASSETS:					
Fixed assets:					
Investments			1,064,041		1,002,352
Current assets					
Debtors	7	3,485		1,546	
Cash & bank balances		<u>18,955</u>		<u>15,227</u>	
Total other assets			<u>22,440</u>		<u>16,773</u>
Total assets			<u>1,086,481</u>		<u>1,019,125</u>
LIABILITIES:					
Provision for other liabilities	9		(622)		(1,115)
Creditors					
Distribution payable		(10,922)		(9,138)	
Other creditors	8	<u>(981)</u>		<u>(985)</u>	
Total liabilities			<u>(12,525)</u>		<u>(11,238)</u>
Net assets attributable to unitholders			<u>1,073,956</u>		<u>1,007,887</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28th February 2023

1. Accounting policies

- (a) The financial statements have been prepared on a going concern basis in accordance with FRS 102 and the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds' issued by the IMA (now known as the Investment Association) in May 2014, updated in June 2017, (the "SORP").
- (b) Dividends receivable from equity investments are recognised gross of withholding tax and are credited to revenue when they are first quoted ex dividend. Interest receivable from debt securities is accounted for on an effective yield basis. All other income is recognised on an accruals basis.
- (c) Special dividends are treated as revenue or capital depending on the facts of each particular case.
- (d) Expenses of the fund are charged against revenue except for costs associated with the purchase and sale of investments which are allocated to the capital of the fund.
- (e) Corporation tax is provided for on the revenue liable to corporation tax less deductible expenses.

Deferred taxation is provided for on all timing differences that have originated but not reversed by the balance sheet date, other than those differences regarded as permanent. Any liability to deferred taxation is provided for at the average rate of taxation expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Overseas capital gains tax is accounted for on an accruals basis.

- (f) The revenue available for distribution is the total revenue earned by the fund, less deductible expenses and taxation charged to revenue. This revenue is distributed annually on the last business day of April. An interim distribution based on available revenue is distributed on the last day of October. The ordinary element of stock dividends is treated as revenue and forms part of the distribution and indexation on index linked bonds is included as part of the distribution. The annual management charge is initially charged to revenue but ultimately borne by the capital of the fund.
- (g) All investments have been valued at their fair value, at close of business on the last business day of the period, which is generally the bid market value net of any accrued revenue.
- (h) Foreign currency transactions are translated at the rates ruling on the date of the transaction. Assets and liabilities valued in foreign currencies have been translated into sterling at exchange rates prevailing at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

continued

2. Net capital gains

	Year ended 28 th Feb. 2023	Year ended 28 th Feb. 2022
	£'000	£'000
Non-derivative securities	24,348	84,200
Currency gains/(losses)	2,110	(695)
Custodian transaction costs	<u>(12)</u>	<u>(7)</u>
Net capital gains*	<u>26,446</u>	<u>83,498</u>
<i>*includes realised gains on investments sold</i>	<u>44,547</u>	<u>7,112</u>

3. Revenue

	Year ended 28 th Feb. 2023	Year ended 28 th Feb. 2022
	£'000	£'000
Bank interest	67	37
Interest on overseas debt securities	2,745	547
Interest on UK debt securities	3,196	2,872
Overseas dividends	7,793	6,854
UK dividends	<u>4,875</u>	<u>5,810</u>
Total revenue	<u>18,676</u>	<u>16,120</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

4. Expenses

	Year ended 28 th Feb. 2023 £'000	Year ended 28 th Feb. 2022 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
– Manager's periodic charge	10,412	10,108
– Transfer agency fee	425	396
Payable to the Trustee, associates of the Trustee and agents of either of them:		
– Trustee's fee	156	151
– Safe custody fee	266	289
Other expenses:		
– Audit fee	16	13
– Fund accounting fee	65	62
– Interest payable and similar charges	27	1
– Professional services fees*	7	26
– Sundry fees**	36	35
Total expenses	<u>11,410</u>	<u>11,081</u>

*Includes non-audit service fees of £4,479 payable to the fund's auditors, PricewaterhouseCoopers LLP (2022: £14,913).

**Includes FT listing fees, financial statement printing and postage and other fees.

NOTES TO THE FINANCIAL STATEMENTS

continued

5. Taxation

	Year ended 28 th Feb. 2023 £'000	Year ended 28 th Feb. 2022 £'000
(a) Analysis of tax charge for the year		
Indian capital gains tax	(503)	544
Overseas tax	<u>994</u>	<u>916</u>
	<u>491</u>	<u>1,460</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower (2022 - higher) than the standard rate of corporation tax in the UK for an authorised unit trust (20% (2022 - 20%)). The differences are explained below:

	Year ended 28 th Feb. 2023 £'000	Year ended 28 th Feb. 2022 £'000
Net revenue before taxation	<u>7,266</u>	<u>5,039</u>
Corporation tax at 20%	1,453	1,008
<i>Effects of:</i>		
Indexation allowance	(687)	(354)
Indian capital gains tax	(503)	544
Movement in unrecognised tax losses	1,828	1,836
Overseas tax	994	916
Overseas tax expensed	(20)	(8)
Prior year adjustment to unrecognised tax losses	(173)	–
Revenue not subject to tax	<u>(2,401)</u>	<u>(2,482)</u>
Current tax charge for the year	<u>491</u>	<u>1,460</u>

(c) Deferred tax

At the balance sheet date, there is a potential deferred tax asset of £10,634,562 (2022 - £8,806,847) in respect of unrecognised tax losses. The fund may not generate sufficient taxable profits in the future to utilise this amount and therefore no deferred tax asset has been recognised in the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS

continued

6. Distributions

The distributions take account of revenue received on the creation of units and revenue deducted on the cancellation of units, and comprise:

	Year ended 28 th Feb. 2023	Year ended 28 th Feb. 2022
	£'000	£'000
Interim	5,100	4,825
Final	<u>10,922</u>	<u>9,139</u>
	<u>16,022</u>	<u>13,964</u>
Add: Revenue deducted on cancellation of units	203	197
Deduct: Revenue received on creation of units	<u>(577)</u>	<u>(440)</u>
Net distribution for the year	<u>15,648</u>	<u>13,721</u>
Net revenue after taxation	6,775	3,579
Expenses taken to capital	10,412	10,108
Indian capital gains tax	(503)	544
Tax attributable to capital	<u>(1,036)</u>	<u>(510)</u>
Net distribution for the year	<u>15,648</u>	<u>13,721</u>

Details of the distributions per unit are shown in the Distribution Tables on page 38.

NOTES TO THE FINANCIAL STATEMENTS

continued

7. Debtors

	28 th Feb. 2023	28 th Feb. 2022
	£'000	£'000
Amounts receivable for creation of units	1,721	444
Overseas withholding tax recoverable	605	475
Prepaid expenses	4	2
Revenue receivable:		
Overseas equities	201	161
Overseas bond interest	664	79
UK bond interest	21	94
UK equities	269	291
	<u>3,485</u>	<u>1,546</u>

8. Other Creditors

	28 th Feb. 2023	28 th Feb. 2022
	£'000	£'000
Accrued expenses:		
Audit fee	16	13
Custodial transaction fees	2	1
Fund accounting fee	15	10
Manager's periodic charge	841	773
Safe custody fees	41	50
Transfer agency fee	32	68
Trustee's fee	12	12
Other	22	21
Amounts payable for cancellation of units	–	37
	<u>981</u>	<u>985</u>

9. Provision for other liabilities

The fund had the following provision during the year:

	Overseas capital gains tax £'000	Total £'000
At 28 th February 2022	1,115	1,115
Deductions dealt with in profit or loss	<u>(493)</u>	<u>(493)</u>
At 28 th February 2023	<u>622</u>	<u>622</u>
	Overseas capital gains tax £'000	Total £'000
At 28 th February 2021	–	–
Additions dealt with in profit or loss	<u>1,115</u>	<u>1,115</u>
At 28 th February 2022	<u>1,115</u>	<u>1,115</u>

NOTES TO THE FINANCIAL STATEMENTS

continued

10. Unit movement

For the year 1st March 2022 to 28th February 2023

Opening units	17,183,654
Units created	1,374,281
Units cancelled	<u>(552,528)</u>
Closing units	<u>18,005,407</u>

11. Related Party Transactions

The Manager actively exercises control over the fund and is therefore a related party by virtue of its controlling influence.

Amounts paid during the year or due to the Manager at the balance sheet date are disclosed under Expenses and Creditors in the Notes to the Financial Statements.

The Manager acts as principal on all transactions of units in the fund. The aggregate monies received through the creation and cancellation of units are disclosed in the Statement of Change in Net Assets Attributable to Unitholders and Distributions in the Notes to the Financial Statements. Amounts due to or from the Manager in respect of unit transactions at the balance sheet date are disclosed under Debtors and Creditors in the Notes to the Financial Statements.

Units held or managed by the Manager or associates of the Manager as a percentage of the fund's value at the balance sheet date were 0.7% (2022 - 0.7%).

12. Portfolio Risk Analysis

In pursuing its investment objectives, the fund's portfolio is invested in a variety of financial assets. These comprise securities and other investments. There are also cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and debtors for accrued revenue.

Credit and Liquidity Risk

Credit risk is the risk that the counterparty in a financial transaction will fail to fulfil their obligation or commitment, and includes the risk that the issuer of a security will be unable to pay interest and principal in a timely manner. The fund is exposed to credit risk through its investment in debt securities. In order to limit credit risk during the period, bonds held by the fund were backed by either the German, Swiss, US or UK government and the gold ETCs, which are structured as debt securities, were backed by physical gold.

continued

12. Portfolio Risk Analysis continued

Credit and Liquidity Risk continued

The fund's assets comprise mainly readily realisable securities. There are no borrowings or unlisted securities of a material nature. The main potential liability of the fund is the redemption of any units that investors wish to sell. Assets of the fund may need to be sold if insufficient cash is available to finance such redemptions. The Manager has reviewed the portfolio's investments and considers them to be sufficiently liquid for these purposes.

It is estimated that 97% of the fund could be realised within 5 days, based upon normal trading activities and achieving 30% of the 30-day average traded volume.

Credit Quality

All debt securities in the portfolio at the balance sheet date are investment grade (2022 - same).

Market Price Risk

Market price risk arises from the effect which falls in the price or value of the assets held could have on the property of the fund. The Manager seeks to mitigate such risk by maintaining a prudent diversification of its investments.

The Manager adheres to investment guidelines and to investment borrowing powers set out in the Trust Deed, Prospectus and in the rules of the Collective Investment Schemes sourcebook. This mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio is set out in the Manager's Investment Report and Portfolio Statement.

Interest Rate Risk

The Manager commonly invests part of the fund's portfolio in quoted debt instruments, generally bonds, issued by third parties. It also holds cash on deposit. Changes in interest rates may have an adverse effect on the future cash flows from such deposits and on the amount of income derived from them.

The Manager reviews policies for managing these risks in pursuance of the investment objective and policy.

Foreign Currency Risk

The fund invests in overseas securities and the balance sheet can be significantly affected by movements in foreign exchange rates. The fund has not hedged the sterling value of investments that are priced in other currencies. Revenue received in other currencies is translated to sterling on or near the date of receipt. The fund does not hedge or otherwise seek to avoid currency movement risk on accrued revenue.

NOTES TO THE FINANCIAL STATEMENTS

continued

12. Portfolio Risk Analysis continued

Valuation of financial investments

The categorisation of financial investments in the tables below reflects the methodology used to measure their fair value.

	Assets £'000	Liabilities £'000
28th February 2023		
Level 1: Quoted prices	1,064,041	—
Level 2: Observable market data	—	—
Level 3: Unobservable data	—	—
	<u>1,064,041</u>	<u>—</u>
	Assets £'000	Liabilities £'000
28th February 2022		
Level 1: Quoted prices	1,002,352	—
Level 2: Observable market data	—	—
Level 3: Unobservable data	—	—
	<u>1,002,352</u>	<u>—</u>

13. Risk Exposure

The Manager uses Value at Risk (VaR) to measure the risks relating to the financial assets in which the fund is invested.

Value at Risk is a statistical measurement. It intends to measure the maximum potential loss in the fund's Net Asset Value under normal market conditions and is calculated for a given confidence level (probability) over a specific time period. The Manager calculates an absolute VaR daily, based on a one year historical observation period and uses a confidence level of 97.5% with a holding period of 1 month.

The absolute VaR of the fund is not permitted to be greater than 20% of its Net Asset Value under normal market conditions.

The table below details the lowest, highest and average VaR in the year.

	Year ended 28 th Feb. 2023 %	Year ended 28 th Feb. 2022 %
Year end VaR	5.10	4.18
Minimum VaR	3.98	4.10
Maximum VaR	5.31	9.23
Average VaR	4.66	4.73

Leverage

The fund had no exposure to leverage, either in the form of debt or derivatives during the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS

continued

14. Portfolio Transaction Costs

For the year 1st March 2022 to 28th February 2023

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	104,997	68	0.06	176	0.17
Debt instruments	286,573	92	0.03	-	-
Total purchases	391,570	160		176	
Total purchases including transaction costs	391,906				
Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	153,046	94	0.06	33	0.02
Debt instruments	206,005	29	0.01	-	-
Total sales	359,051	123		33	
Total sales net of transaction costs	358,895				
Total transaction costs		283		209	
Total transaction costs as a % of average net assets		0.03%		0.02%	

For the year 1st March 2021 to 28th February 2022

Purchases	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	78,113	50	0.06	83	0.11
Debt instruments	117,991	29	0.02	-	-
Total purchases	196,104	79		83	
Total purchases including transaction costs	196,266				
Sales	Value £'000	Commissions £'000	%	Taxes £'000	%
Equity instruments	64,588	41	0.06	12	0.02
Debt instruments	80,899	13	0.02	-	-
Total sales	145,487	54		12	
Total sales net of transaction costs	145,421				
Total transaction costs		133		95	
Total transaction costs as a % of average net assets		0.01%		0.01%	

NOTES TO THE FINANCIAL STATEMENTS

continued

14. Portfolio Transaction Costs continued

The above analysis covers any direct transaction costs carried by the fund during the most recent financial year and prior financial year. However it is important to understand the nature of other transaction costs associated with different investment asset classes and investment instruments types.

Separately identifiable direct transaction costs (commissions & taxes etc) are attributable to the fund's purchase and sale of equity shares. Additionally for equity shares there are dealing spread costs (the difference between the buying and selling prices) which are payable on purchase and sale transactions.

Dealing spread costs incurred by the fund vary depending on a number of factors including transaction value and market sentiment.

At the balance sheet date the average portfolio dealing spread (difference between bid and offer prices of all investments expressed as a percentage of the offer price value) was 0.09% (2022 - 0.12%).

DISTRIBUTION TABLES

**in pence per unit
for the year ended 28th February 2023**

INTERIM DISTRIBUTION

Group 1 - Units purchased prior to 1st March 2022

Group 2 - Units purchased 1st March 2022 to 31st August 2022

	Dividend income	Equalisation*	Amount paid
Group 1	29.000	–	29.000
Group 2	0.000	29.000	29.000

FINAL DISTRIBUTION

Group 1 - Units purchased prior to 1st September 2022

Group 2 - Units purchased 1st September 2022 to 28th February 2023

	Dividend income	Equalisation*	Amount payable
Group 1	60.658	–	60.658
Group 2	12.829	47.829	60.658

*Income arises throughout each reporting period. Equalisation is the average amount of income included in the purchase price of all Group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax. Instead, it must be deducted from the cost of units for capital gains purposes.

DISTRIBUTION SUMMARY

**in pence per unit
for the year ended 28th February 2023**

	Year to 28 th Feb. 2023	Year to 28 th Feb. 2022
Interim paid	29.000	28.000
Final payable/paid	60.658	53.181
	<u>89.658</u>	<u>81.181</u>

DISTRIBUTION XD AND PAYMENT DATES

	<i>XD Date</i>	<i>Payment Date</i>
Final	28.02.23	30.04.23
Interim	31.08.23	31.10.23

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